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26 APR 1949

MEMORANDUM FOR: Admiral Souers, Executive Secretary
National Security Council

SUBJECT: Evaluation of Soviet Economic Data

REFERENCES: a. Your memorandum of 29 March 1949
b. Letter to Admiral Souers from Dr. Clark,
dated 22 March 1949

ENCLOSURES: A. Draft letter from Admiral Souers to Dr. Clark

B.

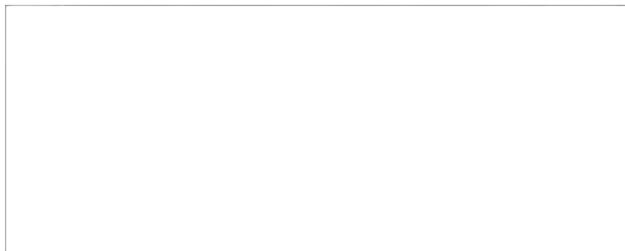
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1. Enclosure A is forwarded in response to reference a.
Enclosure B is submitted for your information and such use as
you may desire to make of it.

2. Dr. Clark's query is, of course, a very broad one and a
government-wide investigation would be necessary to give it
exhaustive treatment. He is concerned with an important matter,
and you may well wish to have other government agencies report to
you on their methods for evaluating Soviet statistics, or the use
to which these statistics are later put by policy-makers.

3. The Office of Intelligence Research, Department of State,
has informally indicated that it considers Enclosure B a good
summary of sources, though State reliance on any specific source,
in view of its special responsibilities, might well vary from that
of CIA.

Origi. dispatched
Signed by hand 4/26/49



R. H. HILLENKOETTER
ADMIRAL, USN
CENTRAL INTELLIGENCE

Note for Record: Reference b.
returned to ES/NSC 4/26/49,
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* CONT * Page 1

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The Honorable John D. Clark
Council of Economic Advisers
Washington, D. C.

Dear Mr. Clark:

I am now able to reply in some detail to your letter of March 22 concerning our evaluation of Soviet economic strength. Inasmuch as the Central Intelligence Agency is the intelligence organ of the National Security Council, the following remarks pertain particularly to the evaluation of Soviet economic intelligence in that office. At the outset I think I can assure you that the estimates which CIA has produced in this field are made with the greatest care. Where an irreducible doubt has persisted in estimates prepared for planning purposes, CIA has, as a matter of policy, presented the higher figure in order to avoid the danger of underestimating the economic strength of the USSR. This, however, has little practical effect on final evaluations.

There are a number of important considerations in determining Soviet economic strength. The development of Soviet power under a completely state-controlled economy in no way "requires us to abandon our faith in the superior productivity of our system of free enterprise." In terms of total capacity, total production and productivity the US far surpasses the USSR. However, the Soviet leaders through the State Planning Commission have established the development of military potential as the primary task of the economy. The formidable strength of the USSR today rests not so much on its productivity as on the goals toward which the factors of production are directed. Direct military production; preparation of other segments of the economy for immediate conversion to war-time production; development of relatively self-sufficient and strategically located industrial areas; and stockpiling represent a considerably higher percentage of the over-all economic effort than they do in the United States. In addition, capital goods production receives relatively much greater emphasis as opposed to consumers goods than it does in the US.

Direct government control over all phases of the economy (the utilization of raw materials, machinery and equipment, transportation and finished products as well as indisputable control over the tremendous manpower of the USSR), provides a large measure of flexibility in the effective accomplishment of a limited number of high priority plans.

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It is this special emphasis on military preparedness at the infinite expense of the civilian consumer that is the basis of Soviet strength as it is derived from the economy. Control of the satellite economies is also being employed with this objective in view.

The analysts in CIA share your reluctance to accept official Soviet figures without qualification, but feel that when these data are carefully checked against additional sources in which CIA has the greatest confidence, they prove to be of real value.

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These sources are in turn evaluated and analyzed by men with long experience in industry, agriculture, banking, and economics

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In short, I have complete confidence that the coordinated intelligence produced as a basis for planning is as reliable as it is humanly possible to produce.

John ... ,

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